



An **ATCO** Company

CU INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE MONTHS ENDED
MARCH 31, 2011

CU Inc.
Consolidated Statement of Earnings and Comprehensive Income
(Millions of Canadian Dollars)

	Note	Three Months Ended	
		March 31	
		2011	2010
Revenues		\$ 474	\$ 431
Costs and expenses			
Salaries, wages and benefits		(68)	(57)
Energy transmission and transportation		(8)	(2)
Plant and equipment maintenance		(15)	(15)
Fuel costs		(4)	(4)
Purchased power		(16)	(15)
Depreciation and amortization	7	(61)	(60)
Franchise fees		(62)	(61)
Other		(58)	(53)
		(292)	(267)
Operating profit		182	164
Interest income		6	7
Interest expense		(42)	(47)
Net finance costs		(36)	(40)
Earnings before income taxes		146	124
Income taxes		(37)	(32)
Earnings from continuing operations		109	92
Earnings from discontinued operations	5	-	11
Earnings and comprehensive income for the period		\$ 109	\$ 103

CU Inc.
Consolidated Balance Sheet
(Millions of Canadian Dollars)

	Note	March 31 2011	December 31 2010	January 1 2010
ASSETS				
Current assets				
Cash and cash equivalents		\$ -	\$ -	\$ 70
Accounts receivable		192	214	244
Accounts receivable from parent and affiliate corporations		11	4	8
Inventories		56	56	72
Long term advances to affiliate corporation due within one year		10	10	-
Prepaid expenses and other current assets		7	12	20
		276	296	414
Non-current assets				
Property, plant and equipment	7	6,395	6,263	6,246
Intangibles		238	240	226
Long term advances to affiliate corporation		165	165	-
Other assets		7	6	6
Total assets		\$ 7,081	\$ 6,970	\$ 6,892
LIABILITIES				
Current liabilities				
Bank indebtedness		\$ 7	\$ 16	\$ 6
Short term advances from parent		-	40	-
Accounts payable and accrued liabilities		267	241	279
Accounts payable to parent and affiliate corporations		23	26	32
Income taxes payable		14	15	4
Long term debt		100	100	125
		411	438	446
Non-current liabilities				
Deferred income tax liabilities		367	349	295
Retirement benefit obligations		79	77	67
Long term debt		2,728	2,728	2,702
Other liabilities		919	904	1,030
Total liabilities		4,504	4,496	4,540
EQUITY				
Equity preferred shares		350	350	275
Equity preferred shares to parent corporation		92	92	125
Class A and Class B share owner's equity				
Class A and Class B shares		413	413	413
Retained earnings		1,722	1,619	1,539
		2,135	2,032	1,952
Total equity		2,577	2,474	2,352
Total liabilities and equity		\$ 7,081	\$ 6,970	\$ 6,892

CU Inc.
Consolidated Statement of Changes in Equity
(Millions of Canadian Dollars)

	Class A and Class B Shares	Equity Preferred Shares	Retained Earnings	Total Equity
At January 1, 2010 <i>(as restated)</i>	\$ 413	\$ 400	\$ 1,539	\$ 2,352
Earnings for the period	-	-	103	103
Dividends	-	-	(6)	(6)
At March 31, 2010	\$ 413	\$ 400	\$ 1,636	\$ 2,449
At December 31, 2010	\$ 413	\$ 442	\$ 1,619	\$ 2,474
Earnings for the period	-	-	109	109
Dividends	-	-	(6)	(6)
At March 31, 2011	\$ 413	\$ 442	\$ 1,722	\$ 2,577

CU Inc.
Consolidated Statement of Cash Flows
(Millions of Canadian Dollars)

		Three Months Ended March 31	
	Note	2011	2010
Operating activities			
Earnings from continuing operations		\$ 109	\$ 92
Adjustments for:			
Depreciation and amortization		61	60
Income taxes		37	29
Contributions by utility customers for extensions to plant		22	19
Net finance costs		36	40
Income taxes paid		(16)	(13)
Other		-	(3)
		249	224
Changes in non-cash working capital	9	25	37
Cash flow from continuing operations		274	261
Cash flow from discontinued operations		-	28
Cash flow from operations		274	289
Investing activities			
Purchase of property, plant and equipment		(186)	(154)
Purchase of intangibles		(5)	(4)
Changes in non-cash working capital	9	(6)	(20)
Investing activities cash flow from discontinued operations		-	(1)
		(197)	(179)
Financing activities			
Dividends paid on equity preferred shares from continuing operations		(6)	(5)
Interest paid		(22)	(31)
Other		-	(1)
		(28)	(37)
Cash position ⁽¹⁾			
Increase		49	73
Beginning of period		(56)	64
End of period		\$ (7)	\$ 137

⁽¹⁾ Cash position consists of cash and cash equivalents less bank indebtedness and short term advances from parent.

CU INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2011

(tabular amounts in millions of Canadian dollars)

1. CORPORATE INFORMATION

Alberta-based CU Inc. is engaged in Utilities (pipelines, natural gas and electricity transmission and distribution). CU Inc. is domiciled in Canada, and its debt and equity preferred shares are listed on the Toronto Stock Exchange. Its registered office is at 1400, 909-11th Avenue SW, Calgary, Alberta, T2R 1N6. The Corporation is principally controlled by Canadian Utilities Limited, which in turn is principally controlled by ATCO Ltd. and its controlling share owner, R.D. Southern.

These consolidated financial statements include the accounts of CU Inc. and its subsidiaries (“the Corporation”). The consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on April 28, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation and Consolidation

The accompanying interim consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”). These interim consolidated financial statements also comply with IFRS 1 *First-time Adoption of IFRS*. They should be read in conjunction with the Corporation’s consolidated financial statements and related notes for the year ended December 31, 2010. Accordingly, the Corporation has commenced reporting on this basis in these interim consolidated financial statements. In this context, the term “Canadian GAAP” refers to generally accepted accounting principles before the adoption of IFRS.

Subject to certain transition elections disclosed in Note 3, the Corporation has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet at January 1, 2010, and throughout all periods presented, as if these policies had always been in effect. Previously, the Corporation prepared its consolidated annual and consolidated interim financial statements in accordance with Canadian GAAP. Note 3 discloses reconciliations to IFRS from the previously published Canadian GAAP primary financial statements, including the nature and effect of significant changes in accounting policies from those used in the Corporation’s consolidated financial statements for the year ended December 31, 2010. Comparative figures for 2010 in these consolidated financial statements have been restated to give effect to these changes.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of April 28, 2011. Any subsequent changes to IFRS that are given effect in the Corporation’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on transition to IFRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rate Regulation

ATCO Electric and its subsidiaries, Northland Utilities (NWT), Northland Utilities (Yellowknife) and Yukon Electrical, the ATCO Gas and ATCO Pipelines divisions of ATCO Gas and Pipelines Ltd., and CU Water, the assets of which were sold in 2010, are wholly owned subsidiaries of CU Inc. and are collectively referred to in these consolidated financial statements as the “utilities”.

Nature and economic effects of rate regulation

ATCO Electric, ATCO Gas, ATCO Pipelines and CU Water are regulated by the Alberta Utilities Commission (“AUC”). Yukon Electrical is regulated by the Yukon Energy Board, and Northland Utilities (Yellowknife) and Northland Utilities (NWT) are regulated by the Northwest Territories Public Utilities Board. The regulators administer acts and regulations covering such matters as rates, financing, accounting, and service area.

The utilities are subject to a cost of service regulatory mechanism under which the regulators establish the revenues required (i) to recover the forecast operating costs, including depreciation and amortization and income taxes, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment, or rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

Rate base for each utility is the aggregate of the regulator approved investment in property, plant and equipment and intangible assets, less accumulated depreciation and amortization, reserves for future removal and site restoration, and unamortized contributions by utility customers for extensions to plant, plus an allowance for working capital. The utilities earn a return on rate base intended to meet the cost of the debt and preferred share components of rate base and to provide share owners with a fair return on the common equity component of rate base.

The regulator approves rates of return for the debt and preferred share components of rate base based on the actual or forecast weighted average cost of each utility’s debt and preferred shares and establishes the capital structure for each utility.

Under the cost of service methodology, the utility seeks approval for its revenue requirement either through submission of general rate applications to the regulator or a negotiated settlement process with interested parties. In the latter case, the regulator monitors the negotiated settlement process and any agreement that is reached is subject to the regulator’s approval. The regulator may approve interim rates or approve the recovery of costs on a placeholder basis, subject to final determination.

Financial statement effects of rate regulation

In the absence of a rate regulated standard under IFRS, the utilities do not recognize assets and liabilities from rate regulated activities as may be directed by regulatory decisions. Instead, the utilities record revenues in earnings when amounts are billed to customers through customer rates consistent with the underlying rate design as mandated by the regulator (see revenue recognition policy below). Operating costs and expenses are recorded when incurred. When the costs are incurred in the construction of an asset and the benefits received meet the recognition criteria of an asset, the costs are included as part of the related property, plant and equipment or intangible asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment Information

Financial information that adjusts IFRS results to show the effect of rate regulation is used by the Corporation's Board of Directors and Office of the Chairman to evaluate the performance of operating segments and determine resource allocation between operating segments. The Office of the Chairman, comprised of the Chairman of the Board, the President and Chief Executive Officer and six other senior executives, is determined to be the Chief Operating Decision Maker and it assesses performance of operations principally on the basis of earnings adjusted for regulatory items as shown in the segment information disclosed in note 4.

Significant Judgments and Estimates

The preparation of the Corporation's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. On an on-going basis, management reviews its estimates, particularly those related to revenue recognition, depreciation and amortization methods, useful lives and impairment of long-lived assets, duration of interest capitalization for qualifying assets, retirement benefits and the fair value of financial instruments, using currently available information. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue Recognition

Revenues from the regulated distribution of natural gas and the regulated distribution of electricity include variable charges, which are recognized on the basis of meter readings upon delivery of the respective commodity to customers and include an estimate of usage not yet billed, and fixed charges, based on the provision of the distribution service during the period.

Revenues for the use of regulated transmission facilities are based on an annual tariff and are recognized evenly throughout the year.

Revenues from the regulated transmission of natural gas are recognized on the basis of contractual arrangements. For certain services, revenues are recognized on the basis of meter readings upon delivery of natural gas to customers and include an estimate of usage not yet billed.

Measurement of the estimate of usage not yet billed is based on historical consumption patterns. Management applies judgment to the measurement of the estimated consumption and to the valuation of that consumption.

Certain additions to property, plant and equipment, primarily in the utilities, are made with the assistance of non-refundable cash contributions from customers when the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. Since the contributions will provide customers with ongoing access to the supply of natural gas or electricity, these contributions are classified as deferred revenue and are recognized over the life of the related asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Short Term Employee Benefits

The cost of short term employee benefits, which includes wages, salaries, social security contributions, short term compensated absences, bonuses and non-monetary benefits such as medical care, is recognized as an expense in salaries, wages and benefits as employees render service. When the services of employees are used in the construction of an asset and the benefits received meet the recognition criteria of an asset, the cost of short term employee benefits is included as part of the related property, plant and equipment or intangible asset.

Franchise Fees

Franchise fees are charged to the utilities by municipal governments for the exclusive right to provide service in their community. These costs are charged to the related customers through rates that must first be approved by the regulator. Franchise fee revenues and expenses are, therefore, recognized separately and are not recorded on a net basis.

Income Taxes

Income taxes represent the sum of current and deferred taxes. Income taxes are recognized in earnings or in equity to the extent that equity items are affected.

Current taxes are based on taxable earnings, which differ from earnings as reported in the statement of earnings because it excludes items that are taxable or deductible in other years and items that are neither taxable nor deductible. The Corporation's liability for current tax is calculated using rates that have been enacted or substantively enacted as of the balance sheet date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate. The provisions are management's best estimates of the expenditures required to settle the present obligations at the balance sheet date measured on the basis of a probability weighting of possible outcomes.

Deferred income taxes are provided, using the liability method, on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for accounting purposes ("temporary differences").

Deferred income tax liabilities are generally recognized on all taxable temporary differences. Deferred income tax assets are recognized on deductible temporary differences and carry forward balances of unused tax losses or credits only to the extent that it is probable that taxable earnings will be available against which these items can be applied. Deferred income tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that, at the time of the transaction, affects neither accounting earnings nor taxable earnings.

Deferred income taxes are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on the tax rates that have been enacted or substantively enacted by the balance sheet date. If the expected tax rates change, deferred income taxes are adjusted to the new rates and the adjustment is booked to either earnings or equity, depending on the nature of the underlying temporary difference.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the deferred income tax asset to be realized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable earnings will allow the deferred income tax assets to be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities, and when they relate to income taxes levied by the same taxation authority.

Cash and Cash Equivalents

Cash equivalents consist of bankers' acceptances, certificates of deposit issued or guaranteed by credit worthy financial institutions and federal government issued short term investments with maturities generally of 90 days or less at purchase.

Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of inventories is assigned using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of inventories is comprised of all costs of purchase, costs of conversion and other costs to bring the inventories to their present condition and location. The costs of purchase comprise the purchase price, import duties, and non-recoverable taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods, materials or services. The costs of conversion include direct material and labour costs and a systematic allocation of fixed and variable overheads incurred in converting materials into finished goods.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses and include capitalized interest incurred during construction. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. A gain or loss arising from the derecognition of an asset is recorded in earnings when the asset is derecognized.

Major overhaul costs are capitalized and depreciated on a straight-line basis to the next major overhaul. Other repair and maintenance costs are charged to earnings during the period in which they are incurred.

The Corporation allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and depreciates separately each such component. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Interest on the funding attributable to qualifying assets is capitalized during construction and is depreciated as part of the total cost over the useful life of the asset. Capitalized interest is calculated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

using the effective interest rate method based on specified rates for specific borrowings and a weighted average rate for general borrowings. Interest capitalization commences when borrowing costs and expenditures are incurred at the onset of construction on assets of substantial duration. Interest capitalization ceases when construction of the asset, or part of the asset, is substantially complete.

Depreciation is provided on assets primarily on a straight-line basis over their estimated useful lives. No depreciation is provided on land and construction work-in-progress. Depreciation periods for the principal categories of property, plant and equipment are shown in the table below:

	Useful Life	Composite Depreciation Rate
Utility transmission and distribution:		
Electricity transmission equipment	50 to 60 years	2.0%
Electricity distribution equipment	15 to 55 years	3.5%
Gas transmission equipment	15 to 80 years	2.8%
Gas distribution plant and equipment	9 to 54 years	2.8%
Buildings	5 to 60 years	3.5%
Other plant, equipment and machinery	5 to 40 years	3 to 5%

Intangibles

Intangible assets, which consist mainly of computer software not directly attributable to the operation of property, plant and equipment and land rights, are recorded at cost less accumulated amortization. The assets are amortized on a straight-line basis over their useful lives, which are not longer than 10 years for computer software and between 75 and 100 years for land rights based on the contractual life of the underlying agreements.

Impairment of Property, Plant and Equipment and Intangibles

Property, plant and equipment and intangible assets with finite lives are tested for recoverability whenever events or changes in circumstances indicate a possible impairment. Impairment is assessed and tested at the cash-generating unit (“CGU”) level (or groups of CGUs), which is the smallest identifiable group of assets that generates independent cash inflows. An impairment of property, plant and equipment and intangible assets with finite lives is recognized in earnings when the asset’s carrying value exceeds its recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and its value in use. Where fair value less costs to sell is not reliably available, value in use is used as the recoverable amount. Value in use is the present value of the future cash flows expected to be derived from an asset, CGU or group of CGUs.

An impairment charge may be reversed only if there is objective evidence that a change in the estimate used to determine the asset’s recoverable amount since the last impairment was recognized is warranted. Where an impairment charge is subsequently reversed, the carrying amount of the asset (or CGU) is increased to the revised recoverable amount to the extent that it does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods. A reversal of an impairment charge is recognized immediately in earnings. After such a reversal, the depreciation or amortization charge, where relevant, is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management necessarily applies judgment in allocating assets that do not generate independent cash flows to appropriate CGUs. The calculations used in determining recoverable amount also involve the use of assumptions as to the price that could be obtained for, or the future cash flows that will be generated by, an asset or group of assets, together with an appropriate discount rate to apply to those cash flows. Subsequent changes to these estimates or judgments may impact the carrying value of the assets within the respective CGU or group of CGUs.

Provisions and Contingencies

The Corporation recognizes provisions when there is a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The evaluation of the likelihood of the contingent events requires judgment by management as to the probability of exposure to potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the consolidated financial statements. However, a contingent asset is disclosed where an inflow of economic benefits is probable.

Financial Instruments

The Corporation establishes the classification of financial instruments at their initial recognition. Financial assets are classified as held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are classified as held for trading or other liabilities.

Financial instruments classified as held for trading, other than derivative instruments that are effective hedging instruments, are measured at fair value with changes in fair value recognized in earnings.

Derivatives that are designated as, and continue to be, highly effective cash flow hedging instruments have gains and losses in fair values recognized through other comprehensive income. Derivatives that are designated as fair value hedging instruments have gains and losses recognized in earnings.

Financial instruments classified as available for sale are measured at fair value using quoted prices in an active market. Changes in fair value are recognized in other comprehensive income until the item is derecognized or determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is recognized in earnings. When actively quoted prices are not available, fair value is determined using other valuation techniques. If fair value cannot be reliably estimated, the item is carried at cost.

Financial instruments classified as held to maturity, loans and receivables or other liabilities are measured at fair value upon initial recognition but are subsequently measured at their amortized cost using the effective interest method. Investments in equity instruments that do not have an actively quoted price and whose fair value cannot be reliably measured are measured at cost.

Transaction costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities that are not held for trading are added to the fair value of such assets or liabilities at time of

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

initial recognition. Transactions costs for long term debt and preferred shares are amortized over the life of the respective financial liability using the effective interest method. The Corporation's long term debt, non-recourse long term debt and preferred shares are presented net of their respective transaction costs.

In estimating fair value, the Corporation utilizes quoted market prices when available. Models incorporating observable market data along with transaction specific factors are also utilized in estimating fair value. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Corporation applies settlement date accounting to the purchases and sales of financial assets. Settlement date accounting implies the recognition of an asset on the day it is received by the Corporation and the recognition of the disposal of an asset on the day that it is delivered by the Corporation. Any gain or loss on disposal is also recognized on that day.

Impairment of Financial Instruments

An impairment of loans and receivables or held-to-maturity investments carried at amortised cost is recognized in earnings when the asset's carrying amount exceeds the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. A reduction in an impairment charge may be reversed if the decrease is related to an event occurring after the impairment was recognized.

An impairment of financial assets carried at cost is recognized in earnings when the asset's carrying amount exceeds the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

When an available for sale financial asset is determined to be impaired, the cumulative gain or loss previously reported in other comprehensive income is recognized in earnings. An impairment charge for an investment in an equity instrument classified as available for sale is not reversed. A reduction in an impairment charge for a debt instrument classified as available for sale may be reversed if the decrease is related to an event occurring after the impairment was recognized.

Where an impairment charge is subsequently reversed, the carrying amount of the asset is increased to the revised recoverable amount to the extent that it does not exceed the carrying amount that would have been determined had no impairment charge been recognized in previous periods. A reversal of an impairment charge is recognized immediately in earnings.

Derivative Financial Instruments

In conducting its business, the Corporation uses various instruments, including forward contracts, swaps and options, to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. All such instruments are used only to manage risk and not for trading purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement Benefits

The Corporation participates, together with Canadian Utilities Limited and its subsidiary corporations, in a registered group defined benefit pension plan (“the Group Plan”). The assets of the Group Plan are not segregated for each participating entity and are used to provide pensions to all members of this plan. In this circumstance, the Corporation is required to account for the Group Plan as a defined contribution plan whereby contributions are expensed as paid.

The Corporation participates, together with Canadian Utilities Limited and its subsidiary corporations, in other post employment benefit (“OPEB”) and non-registered group defined benefit pension plans. These plans are administered on a combined basis, and the Corporation accrues for its obligations under these plans. Costs of these benefits are determined using the projected unit credit method and reflect management’s best estimates of investment returns, wage and salary increases, age at retirement and expected health care costs. The assumptions in relation to the estimated benefit obligations and the cost of providing retirement benefits during the period are set after consultation with qualified actuaries.

For non-registered defined benefit pensions, the Corporation is assessed a percentage of the total cost of the plans.

Employer contributions to the defined contribution pension plan are expensed as paid.

The cost of retirement benefits for defined benefit pension plans, defined contribution pension plans and OPEB plans is recognized as an expense in salaries, wages and benefits as employees render service. Past service costs are recognized immediately in earnings to the extent that benefits are vested, and otherwise are amortized on a straight-line basis over the period until the benefits are vested. When the services of employees are used in the construction of an asset and the benefits received meet the recognition criteria of an asset, the cost of retirement benefits is included as part of the related property, plant and equipment or intangible asset.

Share Based Compensation Plans

Share appreciation rights are cash-settled and are measured at fair value using the Black-Scholes option pricing model by applying graded vesting, adjusted for estimated forfeitures. Share appreciation rights are recognized in salaries, wages and benefits expense over the vesting period, with corresponding liabilities recognized in accounts payable and accrued liabilities and other liabilities on the balance sheet. The liability is re-measured at each reporting period.

The option valuation model requires subjective assumptions to be made, including the future volatility of the share price, expected dividend yields, risk-free interest rates and expected staff turnover. Management draws upon a variety of external sources to aid in the determination of the appropriate data to use in such calculations.

Accounting Changes Not Yet Adopted

Certain new or revised standards or interpretations have been issued by the IASB or IFRIC that are not required to be adopted in the current period. The Corporation has not early adopted these standards or interpretations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 *Financial Instruments*, effective for annual periods beginning on or after January 1, 2013, is part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The Corporation is evaluating the potential effect of this new standard.

There are no other standards and interpretations that have been issued, but are not yet effective, that the Corporation anticipates will have a material effect on the consolidated financial statements once adopted.

3. FIRST-TIME ADOPTION OF IFRS

The Corporation's consolidated financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS. These interim consolidated financial statements have been prepared as described in Note 2, including the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, with a date of transition of January 1, 2010 ("Transition Date").

The following tables reconcile the consolidated financial statements previously reported under Canadian GAAP to the consolidated financial statements prepared in accordance with IFRS. Explanations of the effect of the transition to IFRS follow the reconciliations.

3. FIRST-TIME ADOPTION OF IFRS (continued)

Reconciliation of the Consolidated Balance Sheet as at January 1, 2010 (Transition Date)

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current assets				
Accounts receivable		\$ 261	\$ (17)	\$ 244
Deferred income tax asset	g	6	(6)	-
Regulatory assets	d	37	(37)	-
Other current assets		167	3	170
		471	(57)	414
Property, plant and equipment	b,c,e,f	5,468	778	6,246
Regulatory assets	d	408	(408)	-
Other assets		245	(13)	232
Total assets		\$6,592	\$300	\$6,892
LIABILITIES AND SHARE OWNERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		\$ 267	\$ 12	\$ 279
Regulatory liabilities	d	26	(26)	-
Long term debt	h	-	125	125
Other current liabilities		38	4	42
		331	115	446
Deferred income tax liabilities	b,c,e	333	(38)	295
Regulatory liabilities	d	450	(450)	-
Other liabilities	c,f	207	890	1,097
Long term debt	h	2,827	(125)	2,702
Total liabilities		4,148	392	4,540
Equity				
Equity preferred shares	i	275	-	275
Equity preferred shares to parent corporation	i	130	(5)	125
Class A and Class B share owner's equity				
Class A and Class B shares		413	-	413
Retained earnings	b,c,d,e	1,626	(87)	1,539
Total equity		2,444	(92)	2,352
Total liabilities and equity		\$6,592	\$300	\$6,892

3. FIRST-TIME ADOPTION OF IFRS (continued)

Reconciliation of the Consolidated Balance Sheet as at December 31, 2010

CU Inc.
As at December 31, 2010
(Millions of Canadian Dollars)

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current assets				
Accounts receivable		\$ 263	\$ (49)	\$ 214
Deferred income tax asset	g	2	(2)	-
Regulatory assets	d	17	(17)	-
Other current assets		76	6	82
		358	(62)	296
Property, plant and equipment	b,c,e,f	5,364	899	6,263
Regulatory assets	d	486	(486)	-
Other assets		429	(18)	411
Total assets		\$6,637	\$333	\$6,970
LIABILITIES AND SHARE OWNERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities		\$ 239	\$ 2	\$ 241
Regulatory liabilities	d	17	(17)	-
Long term debt	h	-	100	100
Other current liabilities		92	5	97
		348	90	438
Deferred income tax liabilities	b,c,e	364	(15)	349
Regulatory liabilities	d	494	(494)	-
Other liabilities	c,f	87	894	981
Long term debt	h	2,828	(100)	2,728
Total liabilities		4,121	375	4,496
Equity				
Equity preferred shares	i	350	-	350
Equity preferred shares of subsidiary corporation	i	99	(7)	92
Class A and Class B share owners' equity				
Class A and Class B shares		413	-	413
Retained earnings	b,c,d,e	1,654	(35)	1,619
Total equity		2,516	(42)	2,474
Total liabilities and equity		\$6,637	\$333	\$6,970

3. FIRST-TIME ADOPTION OF IFRS (continued)

Reconciliation of the Consolidated Statement of Earnings and Comprehensive Income for the Three Months Ended March 31, 2010

CU Inc.				
Three Months Ended March 31, 2010				
<i>(Millions of Canadian Dollars)</i>				
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenues	f	\$419	\$12	\$431
Costs and expenses				
Purchased power		15	-	15
Operation and maintenance	j	79	(79)	-
Selling and administrative	j	55	(55)	-
Depreciation and amortization	b,c,f	52	8	60
Interest	j,k	50	(50)	-
Franchise fees		61	-	61
Salaries, wages and benefits	j	-	57	57
Energy transmission and transportation	j	-	2	2
Plant and equipment maintenance	j	-	15	15
Fuel costs	j	-	4	4
Other	j	-	53	53
		312	(45)	267
		107	57	164
Other income		13	(13)	-
Operating profit		120	44	164
Interest income	k	-	7	7
Interest expense	k	-	47	47
Net finance costs	k	-	40	40
Earnings before income taxes		120	4	124
Income taxes		18	14	32
Earnings from continuing operations		102	(10)	92
Earnings from discontinued operations		11	-	11
Earnings and comprehensive income		\$113	\$ (10)	\$103

3. FIRST-TIME ADOPTION OF IFRS (continued)

Reconciliation of the Consolidated Statement of Earnings and Comprehensive Income for the Year Ended December 31, 2010

CU Inc.				
Year Ended December 31, 2010				
<i>(Millions of Canadian Dollars)</i>				
	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenues	f	\$1,477	\$44	\$1,521
Costs and expenses				
Natural gas supply	n	1	(1)	-
Purchased power		54	-	54
Operation and maintenance	j	340	(340)	-
Selling and administrative	j	251	(251)	-
Depreciation and amortization	b,c,f	212	31	243
Interest	j,k	192	(192)	-
Franchise fees		173	-	173
Salaries, wages and benefits	j	-	247	247
Energy transmission and transportation	j	-	10	10
Plant and equipment maintenance	j	-	84	84
Fuel costs	j	-	15	15
Other expenses	j	-	235	235
		1,223	(162)	1,061
		254	206	460
Other income		51	(48)	3
Operating profit		305	158	463
Interest income	k	-	33	33
Interest expense	k	-	177	177
Net finance costs	k	-	144	144
Earnings before income taxes		305	14	319
Income taxes		39	47	86
Earnings from continuing operations		266	(33)	233
Earnings from discontinued operations		33	-	33
Earnings and comprehensive income		\$299	\$ (33)	\$266

3. FIRST-TIME ADOPTION OF IFRS (continued)

Reconciliations of the Consolidated Statement of Changes in Equity as at January 1, 2010, March 31, 2010 and December 31, 2010

	March 31, 2010	December 31, 2010	January 1, 2010
Equity under Canadian GAAP	\$2,551	\$2,516	\$2,444
IFRS adjustments increase (decrease):			
Assets and liabilities from rate regulated activities	(16)	(40)	(6)
Asset retirement obligations	(11)	-	(11)
Rate regulated property, plant and equipment	(75)	(2)	(75)
Other	(1)	-	-
Equity under IFRS	\$2,448	\$2,474	\$2,352

Reconciliations of Comprehensive Income for the Three Months Ended March 31, 2010 and the Year Ended December 31, 2010

	Three Months Ended March 31, 2010	Year Ended December 31, 2010
Comprehensive income under Canadian GAAP	\$113	\$299
Decrease for the period:		
Assets and liabilities from rate regulated activities	(10)	(31)
Other	-	(2)
Comprehensive income under IFRS	\$ 103	\$ 266

Reconciliation of Cash Flows for the Three Months Ended March 31, 2010

	Three Months Ended March 31, 2010		
	Canadian GAAP	Effect of Transition	IFRS
Cash flow from continuing operations	\$ 206	\$ 55	\$ 261
Cash flow from discontinued operations	26	2	28
Cash flow from investing activities	(155)	(23)	(178)
Investing activities cash flow from discontinued operations	(4)	3	(1)
Cash flow from financing activities	-	(37)	(37)

3. FIRST-TIME ADOPTION OF IFRS (continued)

Reconciliation of Cash Flows for the Year Ended December 31, 2010

	Year Ended December 31, 2010		
	Canadian GAAP	Effect of Transition	IFRS
Cash flow from operations	\$ 459	\$ 263	\$ 722
Cash flow from discontinued operations	51	4	55
Cash flow from investing activities	(681)	(74)	(755)
Investing activities cash flow from discontinued operations	(20)	10	(10)
Cash flow from financing activities	71	(203)	(132)

The changes in classifications of cash flows under IFRS are mainly due to:

- Separate presentation of interest paid of \$31 million for the three months ended March 31, 2010 and \$183 million for the year ended December 31, 2010 in financing activities as required by IFRS. Canadian GAAP only required interest paid to be disclosed in the notes to the financial statements.
- Reclassification of contributions by utility customers for extensions to plant from investing activities to operating activities of \$19 million and \$66 million for the three months ended March 31, 2010 and the year ended December 31, 2010, respectively. Under IFRS, the Corporation treats customer contributions as deferred revenue and classifies the associated cash flows as operating activities. Under Canadian GAAP, customer contributions were treated as a reduction of property, plant and equipment and classified the cash flows as investing activities

Explanations of the Effect of the Transition to IFRS

The following explanations accompany the preceding reconciliations and describe the effect of the transition to IFRS, including: mandatory exceptions and optional exemptions from retrospective application of IFRS under IFRS 1 and items requiring retrospective application.

Mandatory Exceptions From Retrospective Application

IFRS 1 requires certain mandatory exceptions from full retrospective application of all accounting standards effective at the reporting date. The following mandatory exception was applicable to the Corporation at the Transition Date:

a) Estimates

The Corporation followed the mandatory exception and did not use hindsight to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for IFRS, except to reflect any difference in accounting policies.

3. FIRST-TIME ADOPTION OF IFRS (continued)

Optional IFRS 1 Exemptions From Retrospective Application

In general, IFRS requires an entity to comply with all of the accounting standards effective at the end of the first reporting period after adopting IFRS. This means restating accounting transactions as if the standards had been in place when the transactions occurred. IFRS 1 gives limited optional exemptions from retrospectively applying the standards where the costs of doing so would likely exceed the benefits to users of the financial statements. Significant IFRS 1 exemptions used by the Corporation are as follows:

b) Rate Regulated Property, Plant and Equipment

For operations subject to rate regulation, other than the regulated generating plants owned by ATCO Power, the Corporation has used the carrying amount of property, plant and equipment determined under Canadian GAAP as deemed cost on transition to IFRS. The carrying amount of these assets as they are included in rate base and applying IFRS retrospectively would have been onerous.

For the regulated generating plants owned by ATCO Power that are governed by PPAs, the Corporation reduced property, plant and equipment by \$102 million, deferred income tax liabilities by \$27 million and retained earnings by \$75 million for costs that cannot be capitalized under IFRS. As a result of this change, depreciation and amortization decreased by \$3 million and \$10 million and plant and equipment maintenance increased by \$2 million and \$10 million for the discontinued operations for the three months ended March 31, 2010 and the year ended December 31, 2010 respectively.

c) Asset Retirement Obligations

The Corporation elected to use an exemption allowing ARO liabilities and related assets to be re-measured on a simplified approach at the Transition Date rather than perform full detailed ARO calculations.

At the Transition Date, the re-measurement increased ARO liabilities by \$11 million and reduced property plant and equipment by \$4 million, deferred income tax liabilities by \$4 million and retained earnings by \$11 million.

3. FIRST-TIME ADOPTION OF IFRS (continued)

Retrospective Treatments on Transition

In the absence of an IFRS 1 exemption, IFRS requires retrospective application at the Transition Date. The Corporation applied retrospective treatment to the following items at the Transition Date.

d) *Assets and Liabilities from Rate Regulated Activities*

At the Transition Date, the Corporation derecognized all assets and liabilities relating to rate regulated activities. This change reduced total assets by \$466 million, total liabilities by \$459 million, and increased retained earnings by \$5 million. Refer to Note 4 for information regarding the effect on earnings.

e) *Major Overhauls*

Under IFRS, major overhaul expenses are capitalized when incurred and depreciated until the next overhaul. Overhaul costs that do not relate to the replacement of components or the installation of new assets are expensed when incurred. Under Canadian GAAP, costs of major overhauls that are included in long term service agreements as variable costs over and above fixed costs were expensed in equal proportions over the life of the agreement. At the Transition Date, this change increased total assets by \$1 million and total liabilities by \$1 million and increased retained earnings by \$1 million. As a result of this change, earnings increased \$1 million and \$3 million for the three months ended March 31, 2010 and the year ended December 31, 2010, respectively.

Reclassifications

The following reclassifications were made due to differences in presentation between Canadian GAAP and IFRS:

f) *Customer Contributions*

Under IFRS, customer contributions for the acquisition or construction of property, plant and equipment are consideration for a future service and therefore considered to be deferred revenues to be amortized over the period in which the service is provided.

Under Canadian GAAP, these customer contributions netted against property, plant and equipment and were amortized on the same basis as, and offset against the depreciation charge of, the assets to which they related.

3. FIRST-TIME ADOPTION OF IFRS (continued)

At the Transition Date, property, plant and equipment and other liabilities increased by \$883 million. Revenues and depreciation and amortization expense increased by \$8 million and \$31 million in the three months ended March 31, 2010 and the year ended December 31, 2010, respectively.

g) *Deferred Income Taxes*

IFRS does not permit deferred tax assets or liabilities as current assets or liabilities. As a result, current deferred income tax assets of \$4 million as at the Transition Date and \$2 million as at December 31, 2010, were reclassified to non-current deferred income tax assets on the consolidated balance sheet.

h) *Long Term Debt Due Within One Year*

Long term debt due within one year that under Canadian GAAP was classified as long term due to the ability and intention to refinance must be disclosed as a current liability under IFRS. IFRS does not contain the same guidelines allowing long term debt that is to be refinanced to be shown as non-current. Consequently, long term debt of \$125 million at the Transition Date and \$100 million at December 31, 2010 have been re-classified to current liabilities on the consolidated balance sheet.

i) *Equity Preferred Shares*

Under IFRS, equity preferred shares are presented as components of equity separate from the parent share owners' equity. Under Canadian GAAP, equity preferred shares were presented as equity preferred shares outside of share owners' equity. Equity preferred shares of \$405 million as at the Transition Date and \$449 million as at December 31, 2010 have been included in the total equity section of the consolidated balance sheet.

j) *Nature of Expenses*

IFRS requires expenses to be classified on the statement of earnings by either nature or function, not as a combination of both. If classified by function, the classification by nature is required to be disclosed in the notes to the financial statements. Therefore, the Corporation has elected to present costs and expenses on the consolidated statement of earnings solely by nature. Under Canadian GAAP, the Corporation presented costs and expenses in a combination of both nature and function. As a result, operation and maintenance and selling and administrative expenses were reclassified to separate categories by nature as identified in the consolidated statement of earnings.

k) *Net Finance Costs*

Under IFRS, interest income and expense and dividends on preferred shares are presented in the consolidated statement of earnings as net finance costs below operating profit.

4. SEGMENT INFORMATION

Reconciliation of Adjusted Earnings and Earnings Attributable to Class A and Class B Shares – Three Months Ended March 31

2011 2010	Continuing Operations	Discontinued Operations	Consolidated
Adjusted Earnings	\$ 100 \$ 97	\$ - \$ 11	\$ 100 \$ 108
Adjustments for rate regulated activities	3 (10)	- -	3 (10)
Adjustment for dividends on equity preferred shares	6 5	- -	6 5
Earnings for the period	\$ 109 \$ 92	\$ - \$ 11	\$ 109 \$ 103

Adjusted Earnings

Adjusted Earnings for the period after adjusting for the timing of revenues and expenses associated with ongoing rate regulated activities and dividends on equity preferred shares charged to retained earnings, as well as one-time gains and losses and items that are not in the normal course of business or a result of day to day operations. Adjusted Earnings are a key measure of segment earnings used by the Chief Operating Decision Maker (“CODM”) for purposes of assessing segment performance and allocating resources. Other accounts in the consolidated financial statements have not been adjusted as they are not used by the CODM for those purposes.

With respect to the accounting for rate regulated activities, prior to the adoption of IFRS, the Corporation had, as permitted by Canadian GAAP, utilized standards issued by the Financial Accounting Standards Board (“FASB”) in the United States (“U.S.”) as another source of GAAP. The FASB standards provided guidance on the recognition and measurement of assets and liabilities arising from rate regulation where Canadian GAAP no longer provided such guidance. Adjusted Earnings will present earnings from rate regulated activities on the same basis as was used prior to adopting IFRS.

There is currently no specific guidance under IFRS for rate regulated entities. Consequently, the Corporation does not recognize assets and liabilities from rate regulated activities under IFRS.

While the accounting for rate regulated activities has changed, the economics of rate regulation have not changed (see Nature and Economic Effects of Rate Regulation in Note 2). The CODM is of the belief that earnings adjusted in accordance with the FASB standards are a better representation of the results of operations of its rate regulated activities. Furthermore, Adjusted Earnings will facilitate comparability of the Corporation’s financial results with rate regulated peer companies that have deferred the adoption of IFRS by one year to 2012 as permitted by the Canadian Accounting Standards Board, as well as with entities that utilize U.S. accounting principles for rate regulated entities.

4. SEGMENT INFORMATION (continued)

Rate regulated accounting under Canadian GAAP differs from IFRS in the following ways:

Canadian GAAP Treatment	IFRS Treatment
(1) The Corporation was able to defer the recognition of cash received in advance of future expenditures.	The Corporation records revenues when amounts are billed to customers, but does not recognize the associated costs until they are incurred.
(2) The Corporation was able to recognize revenues associated with recoverable costs in advance of future billings to customers.	The Corporation records costs when incurred, but does not recognize their recovery until changes to customer rates are reflected in future customer billings.
(3) The Corporation recognized the earnings that arose from a regulatory decision that pertained to current and prior periods upon receipt of the decision.	The Corporation recognizes earnings when customer rates are changed and amounts are billed to customers.
(4) Intercompany profits on the manufacture or construction of facilities for a regulated public utility in the consolidated group were deemed to have been realized to the extent that the transfer price on such facilities was recognized for rate-making purposes by a regulator.	Intercompany profits are eliminated upon consolidation. The Corporation then recognizes those profits in earnings as amounts are billed to customers over the life of the related asset.

4. SEGMENT INFORMATION (continued)

Timing adjustments for rate regulated activities are as follows:

	Three Months Ended March 31	
	2011	2010
<i>Additional revenues billed in current period:</i>		
Future removal and site restoration costs ⁽¹⁾	\$ 12	\$ 11
Retirement benefits ⁽²⁾	5	-
Transmission and distribution system load balancing ⁽⁵⁾	-	5
Impact of colder temperatures on revenues ⁽⁶⁾	9	-
Other	6	7
	32	23
<i>Revenues to be billed in future period:</i>		
Deferred income taxes ⁽³⁾	(12)	(14)
Transmission access payments ⁽⁴⁾	(4)	-
Transmission and distribution system load balancing ⁽⁵⁾	(6)	-
Impact of warmer temperatures on revenues ⁽⁶⁾	-	(6)
Other	(1)	(4)
	(23)	(24)
<i>Regulatory decisions:</i>		
Decisions related to current and prior periods ⁽⁷⁾	(6)	(9)
	\$ 3	\$(10)

Descriptions of the adjustments and the timing of recovery or refund for each are as follows:

Description	Timing of Recovery or Refund
⁽¹⁾ Forecast future removal and site restoration costs are billed to customers over the life of the associated assets in advance of future expenditures.	Revenues are recorded when forecast costs are billed to customers. Costs will be expensed in future periods when incurred.
⁽²⁾ The Corporation accrues for its obligations under defined benefit pension plans and other post employment benefit plans, whereas the costs of retirement benefits are recovered from customers when paid.	Variances between the amounts paid and accrued for the retirement benefit plans will vary depending on the performance of plan assets and the actuarial valuations of plan obligations. These variances will remain until the plans are paid, settled or terminated.
⁽³⁾ Deferred income taxes are a non-cash expense incurred by the Corporation related to temporary differences between the book value and the tax value of assets and liabilities.	Deferred income taxes are not recovered from customers until the temporary differences reverse and current income taxes are paid by the utilities.

4. SEGMENT INFORMATION (continued)

Description	Timing of Recovery or Refund
<p>(4) ATCO Electric expenses transmission access payments when incurred, whereas the amount included in customer rates is based on forecast cost. Actual payments may vary from forecast due to changes in tariffs charged by the Alberta Electric System Operator (“AESO”).</p>	<p>Recoveries from or refunds to customers of differences between transmission access payments billed to customers and paid by ATCO Electric are expected to occur in the following year.</p>
<p>For major transmission capital projects in Alberta, ATCO Electric’s revenues include a return on forecast rate base. When actual capital costs vary from forecast capital costs, variances may arise between the returns on forecast versus actual rate base.</p>	<p>Recoveries from or refunds to the AESO of variances between forecast and actual returns on rate base are expected to occur in the following year.</p>
<p>Variances between ATCO Electric’s actual and forecast income tax expense may arise due to changes in enacted and substantively enacted tax rates. The amount included in customer rates is based on forecast tax rates.</p>	<p>Recoveries from or refunds to customers of variances between forecast and actual income taxes arising from changes in enacted or substantively enacted tax rates are expected to occur in the following year.</p>
<p>(5) ATCO Gas and ATCO Pipelines engage in the purchase or sale of natural gas to maintain appropriate operating pressures on their distribution and transmission pipeline systems. The purchases and sales of natural gas are recorded as expenses and revenues, respectively, when incurred.</p>	<p>The utilities may apply to the AUC for recoveries from or refunds to customers of the net purchases and sales when they exceed certain thresholds: for ATCO Gas, \$5 million over six successive months or \$10 million for one month for either of its North or South systems; for ATCO Pipelines, \$7 million for its North system and \$5 million for its South system.</p>
<p>(6) ATCO Gas’ customer rates are based on a forecast of normal temperatures. Fluctuations in temperatures may result in more or less revenue being recovered from customers than forecast. Revenues above or below the norm are refunded to or recovered from customers in future periods.</p>	<p>ATCO Gas may apply to the AUC for recoveries from or refunds to customers when the net revenue variances exceed \$7 million at April 30th of any year for either of its North or South systems.</p>

4. SEGMENT INFORMATION (continued)

Description	Timing of Recovery or Refund
<p>(7) The utilities recognize revenues from regulatory decisions when customer rates are changed and amounts are billed to customers. Under Canadian GAAP, the utilities recognized the earnings that affected current and prior periods upon receipt of the decision.</p>	<p>In the first quarter of 2010, ATCO Gas recorded earnings of \$11 million for the partial recovery from customers of amounts previously paid to customers in regard to the Carbon storage facility. Under IFRS, these earnings will be recognized over a period of 8 months commencing in the second quarter of 2010. In the third quarter of 2010, ATCO Gas recorded an additional \$14 million of earnings pertaining to Carbon. Under IFRS, these earnings will be recognized over a period of 14 months commencing in the fourth quarter of 2010.</p>
	<p>In the first quarter of 2010, ATCO Gas recorded a contingent liability regarding amounts previously recovered from customers for historical transportation imbalances which reduced its earnings by \$8 million. The AUC's final decision resulted in a reversal of \$1 million of the contingent liability in the third quarter of 2010. Under IFRS, the net \$7 million reduction in earnings was recorded in the fourth quarter of 2010 when it was refunded to customers.</p>
	<p>In 2007, ATCO Electric was directed to refund to customers the federal deferred income taxes previously recovered from customers. A portion of the total liability to customers was to be refunded over a five year period commencing in 2008. Under IFRS, revenues are reduced when the refund occurs. Consequently, earnings in 2010 were reduced by \$2 million and the remaining amount of \$2 million is expected to be refunded in 2011.</p>

5. DISCONTINUED OPERATIONS

Discontinued operations as reported on the Consolidated Statement of Earnings and Comprehensive Income are as follows:

	Three Months Ended March 31, 2010
Revenues	\$ 76
Costs and expenses	(56)
Net finance costs	(5)
Earnings from discontinued operations before income taxes	15
Income taxes	(4)
Earnings from discontinued operations	\$ 11

Discontinued operations as reported on the Consolidated Balance Sheet are as follows:

	January 1, 2010
Assets:	
Current Assets	\$ 100
Property, plant and equipment	485
Other assets	2
Total Assets	\$ 587
Liabilities and Share Owner's Equity:	
Liabilities:	
Bank indebtedness	
Accounts payable and accrued liabilities	\$ 35
Accounts payable to parent and affiliate corporations	10
Provisions	58
Other deferred credits	87
Long term debt ⁽¹⁾	220
Total liabilities	410
Equity:	
Equity preferred shares to parent corporation	30
Class A and Class B share owner's equity	
Class A and Class B shares	313
Retained earnings	(166)
Total equity	177
Total liabilities and equity	\$ 587

⁽¹⁾ Intercompany amounts with CU Inc. that were eliminated upon consolidation prior to the Alberta Power (2000) transfer.

Cash flows relating to discontinued operations have been reported as separate line items of cash flow from operating, investing and financing activities on the Consolidated Statement of Cash Flows, and comparative period balances have been restated.

6. DIVIDENDS

Cash dividends declared and paid for all series and classes of preferred and common shares are as follows:

	Three Months Ended March 31	
	2011	2010
<i>Equity preferred shares:</i>		
4.60% Cumulative Redeemable Preferred Shares, Series 1	\$0.28750	\$0.28750
6.70% Cumulative Redeemable Preferred Shares, Series 2	0.41875	0.41875
3.80% Cumulative Redeemable Preferred Shares, Series 4	0.23164	0.23750
<i>Equity preferred shares to parent corporation:</i>		
4.35% Perpetual Cumulative Second Preferred Shares, Series U	\$0.271875	\$0.271875
4.70% Perpetual Cumulative Second Preferred Shares, Series V	0.271875	0.271875
Class A and Class B shares	-	-

The payment of dividend on the Corporation's Class A and Class B shares is at the discretion of the Board of Directors and depends on the financial condition of the Corporation and other factors.

7. PROPERTY, PLANT AND EQUIPMENT

	Utility Transmission & Distribution	Power Generation	Land and buildings	Construction Work-in- Progress	Other	Total
<i>Cost:</i>						
At January 1, 2010 (as restated)	\$7,290	\$ 1,196	\$256	\$261	\$385	\$9,388
Additions	641	-	30	43	39	753
Disposals	(83)	(1,196)	(15)	(7)	(20)	(1,321)
At December 31, 2010	7,848	-	271	297	404	8,820
Additions	86	-	1	99	1	187
Disposals	(3)	-	-	-	(1)	(4)
At March 31, 2011	\$7,931	\$ -	\$272	\$396	\$404	\$9,003
<i>Accumulated depreciation:</i>						
At January 1, 2010 (as restated)	\$2,116	\$ 733	\$ 74	\$ -	\$219	\$3,142
Depreciation	198	-	7	-	19	224
Disposals	(56)	(733)	(1)	-	(19)	(809)
At December 31, 2010	2,258	-	80	-	219	2,557
Depreciation	51	-	2	-	2	55
Disposals	(3)	-	-	-	(1)	(4)
At March 31, 2011	\$2,306	\$ -	\$ 82	\$ -	\$220	\$2,608
<i>Net book value:</i>						
At January 1, 2010 (as restated)	\$5,174	\$ 463	\$182	\$261	\$166	\$6,246
At December 31, 2010	\$5,590	\$ -	\$191	\$297	\$185	\$6,263
At March 31, 2011	\$5,625	\$ -	\$190	\$396	\$184	\$6,395

8. CAPITAL DISCLOSURES

The Corporation's key measures of capital structure are as follows:

	March 31, 2011	December 31, 2010	January 1, 2010
Class A and Class B shares	\$ 413	\$ 413	\$ 413
Retained earnings	1,722	1,619	1,539
Equity preferred shares	350	350	275
Equity preferred shares to parent corporation	92	92	125
Total equity	2,577	2,474	2,352
Long term debt	2,828	2,828	2,827
Total capitalization	\$5,405	\$5,302	\$5,179
Equity capitalization	48%	47%	45%

The equity capitalization is in line with the Corporation's objectives. Equity capitalization decreased 1% at January 1, 2010, from that reported under Canadian GAAP as a result of the transitional adjustments to IFRS (see Note 3) and remained unchanged at December 31, 2010.

9. CHANGES IN NON-CASH WORKING CAPITAL

	Three Months Ended March 31	
	2011	2010
<i>Operating activities, changes related to:</i>		
Accounts receivable	\$ 21	\$ 26
Accounts receivable from parent and affiliate corporations	(5)	(11)
Inventories	(1)	(2)
Prepaid expenses and other current assets	1	1
Accounts payable and accrued liabilities	13	30
Accounts payable to parent and affiliate corporations	(3)	(6)
Income taxes payable	(1)	(1)
	\$ 25	\$ 37
<i>Investing activities, changes related to:</i>		
Inventories	\$ 1	\$ (2)
Accounts payable and accrued liabilities	(7)	(18)
	\$ (6)	\$ (20)